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*Incoming*  
*c/007/0045*

**From:** Daron Haddock  
**To:** OGMCOAL  
**Date:** 1/22/2009 8:49 AM  
**Subject:** Fwd: FW: Letter to Commonwealth Coal Sales  
**Place:** OGMCOAL  
**Attachments:** Commonwealth Contact.pdf; Ltr. to Commonwealth.pdf; COVOLJan17, 2008.doc

*R*

Forwarded information to file.

>>> "Henry Austin" <[HAustin@osmre.gov](mailto:HAustin@osmre.gov)> 2/27/2008 1:35 PM >>>

Hi Daron & Pete:

See attached our January 17, 2008, oversight inspection information for the COVOL Engineered Fuels LC, coal processing operation in UT.

I wanted to include the Commonwealth Coal (the coal broker for the Utah COVOL site) contract with Savage Industries; and the letter from OSM (Fee Compliance) to Commonwealth Coal.

I want to include this information because I contacted Jennifer Smith to get an update on the status of the Savage Industries / OSM fee compliance audit. This audit may also define the Commonwealth Coal broker's OSM fee compliance responsibilities with respect to the other coal and/or coal waste (West Ridge, Deer Creek, Savage Industries) being processed at COVAL, and being brokered by Commonwealth Coal.

Thanks.....Henry

Henry Austin / USDI-OSM  
1999 Broadway Ste. 3320  
PO Box46667  
Denver, CO 80201-6667  
(303) 844-1400 x1466 (office)  
(303) 475-9559 (cell)  
[haustin@osmre.gov](mailto:haustin@osmre.gov)

**From:** Jennifer Smith  
**Sent:** Tuesday, January 08, 2008 8:34 AM  
**To:** Henry Austin  
**Subject:** RE: Letter to Commonwealth Coal Sales

Hi Henry,

Attached is a copy of the contract between Commonwealth and Savage Services. Have a good trip.

January 9, 2006

Commonwealth Coal Service Inc.  
5413 Patterson Ave, Suite 200  
Richmond, Va 23226  
Attn: T. Wallace Taylor

RE: Savage Coal Terminal - Refuse Material Proposal

Dear Wallace:

This letter will confirm the discussions and understanding between Commonwealth Coal Service Inc. ("Commonwealth") and Savage Services Corporation ("Savage") concerning the "Refuse Material" located in the "Refuse Area" at the Savage Coal Terminal on Ridge Road in Carbon County, Utah (the "SCT").

The Refuse Material has no economic value to Savage but may be of use to Commonwealth if Commonwealth can clean the Refuse Material by removing and retaining certain materials from the Refuse Material (the "Clean Material") at the cleaning and blending facility (the "Covol Facility") owned and operated by Covol Fuels ("Covol") located adjacent to the SCT and returning the remaining Refuse Material (the "Return Material") to the Refuse Area.

Savage is willing to provide the "Services" hereinafter set forth in this letter.

1. On a five (5) day per week basis (Monday thru Friday, excluding holidays), ten (10) hours per day, Savage will provide and operate a dozer to excavate the Refuse Material from the Refuse Area, a front end loader to load the Refuse Materials into tractors and bottom dump trailers (each tractor/trailer is a "Truck" and collectively are "Trucks"), Trucks to transport the Refuse Materials from the Refuse Area to the Covol Facility and there unload the Refuse Material into the Covol Facility drive over truck hopper (collectively, the "Refuse Material Services").
2. Commonwealth may request, upon not less than twenty-four (24) hours advance notice, that Savage provide the Refuse Material Services for any given work day provided that the minimum and maximum tonnage of Refuse Material to be delivered by Savage to the Covol Facility shall not be less than seven hundred fifty (750) tons nor more than fifteen hundred (1500) tons during such work day.

3. Commonwealth will cause Covol to:
  - a. Unload Refuse Material from each Truck in not more than five (5) minutes following each Truck's arrival at the Covol Facility; and
  - b. Provide and operate a front end loader to load separately the Clean Material and the Return Material into each Truck in not less than ten (10) minutes following each Truck's arrival for delivery of the Refuse Material at the Covol Facility.
4. Savage will transport the Return Material from the Covol Facility in the Trucks, unload the Return Material at the Refuse Area, and using a front end loader and a dozer, place and compact the Return Material as determined by Savage (collectively, the "Return Material Services").
5. Savage will transport the Clean Material from the Covol Facility in the Trucks, unload and stockpile the Clean Material adjacent to the current Commonwealth coal storage area at the SCT (the total tonnage of Commonwealth coal and Clean Material to be in two (2) separate stockpiles at any time at the SCT shall not exceed twenty thousand (20,000) tons) (collectively, the "Clean Material Services").
6. From time to time, upon Commonwealth's request:
  - a. Savage will transport the Clean Materials from the Covol Facility in the Trucks, unload the Clean Material on the concrete storage pad at the synthetic fuel treatment facility owned and operated by DTE (the "DTE Facility") located adjacent to the SCT for treatment by DTE (the "DTE Clean Material Services"). Commonwealth will cause DTE to weigh each loaded Truck upon DTE's platform weigh scale (the "DTE Scale") and keep the concrete storage pad in a condition that each Truck can weigh and unload the Clean Material within five (5) minutes following each Truck's arrival at the DTE Facility; and
  - b. Savage will transport the Clean Materials, following treatment by DTE (the "Treated Clean Materials"), in Trucks from the DTE Facility to the Clean Material stockpile at the SCT referred to in Paragraph 5 above (the "Treated Clean Material Services"). Commonwealth will cause DTE to provide and operate a front end loader to load the Treated Clean Materials into each Truck and weigh each loaded Truck on the DTE Scale in not more than ten (10) minutes following each Truck's arrival at the DTE Facility, ready to be loaded with Treated Clean Materials.

7. The weights of Refuse Material leaving the SCT and weights of Clean Material and Return Material returning to the SCT will be determined pursuant to the scale weights recorded on Savage's platform weigh scale at the SCT (the "SCT Scale") for each Truck load of Refuse Material, Clean Material and Return Material handled by Savage.
8. The weights of Clean Material transported by Savage from the Covol Facility to the DTE Facility and weights of Treated Clean Materials transported by Savage from the DTE Facility to the SCT will be determined pursuant to the scale weights recorded on the DTE Scale.
9. Savage will blend the Clean Material with other Commonwealth coal (not to exceed approximately thirty percent [30%] blend of Clean Material) at the time of Savage's placing the same into unit-train rail cars arranged by Commonwealth and scheduled in coordination with Savage at the unit train loadout facility at the SCT. At the time of such loading, Savage will cause samples of the blended Clean Material and Commonwealth coal to be taken by the sampling system at the SCT (collectively, the "Blending and Loading Services"). The samples collected by Savage will be discarded within five (5) days of collection if not previously picked up by Commonwealth.
10. Commonwealth agrees that:
  - a. The Clean Material and Treated Clean Material will have a nominal size of 2" X 0, be free flowing, be free of extraneous materials, not require crushing or screening and will be free of environmental contaminants;
  - b. The Return Material will be free of environmental contaminants prior to being returned to the Refuse Area. Savage will have the right, at Commonwealth's expense, to have the Return Material analyzed by an independent laboratory from time to time while located at the Covol Facility and before the Return Material is returned to the Refuse Area to determine that the Return Material contains no environmental contamination. Savage will have no duty to accept the Return Material if the same contains any environmental contaminants and such Return Material shall remain the sole responsibility of Commonwealth;
  - c. Commonwealth will be solely responsible for and will defend, indemnify and hold Savage harmless on account of any claims of third parties, including governmental agencies, for royalties, dues, taxes or assessments of any kind with respect to the Clean Material and the Treated Clean Material; and

- d. Commonwealth will be solely responsible for and will defend, indemnify and hold Savage harmless on account of any claims arising out of the Refuse Material, Clean Material or Return Material while located at the Covol Facility and the Clean Material or Treated Clean Material while located at the DTE Facility until the same is transported by Savage back to the SCT.
11. Savage understands and now consents that some Refuse Material and/or Return Material may be placed by Covol at the Covol Facility as pad material. In such instances, Commonwealth will be solely responsible for and will defend, indemnify and hold Savage harmless on account of any claims arising out of the pad material. Savage will have no obligation to accept the pad material back at the SCT.
12. Savage relinquishes all rights of ownership to the Clean Material at the time the same is created at the Covol Facility.
13. On or before the 10<sup>th</sup> day of each month, Savage will prepare and deliver to Commonwealth, an invoice or invoices for:
  - a. The tons of Refuse Material for which Savage provided Refuse Material Services during the preceding month, multiplied by Three Dollars and Forty Cents (\$3.40) per ton (the "Refuse Material Fee");
  - b. The tons of Return Materials for which Savage provided Return Material Services during the preceding month, multiplied by One Dollar and Thirty One Cents (\$1.31) per ton (the "Return Material Fee");
  - c. The tons of Clean Materials for which Savage provided Clean Material Services during the preceding month, multiplied by Eight Five Cents (\$0.85) per ton (the "Clean Material Fee");
  - d. The tons of Clean Materials for which Savage provided DTE Clean Material Services multiplied by Eighty Cents (\$0.80) per ton (the "DTE Clean Material Fee");
  - e. The tons of Treated Clean Materials for which Savage provided Treated Clean Material Services multiplied by Seventy Five Cents (\$0.75) per ton (the "Treated Clean Material Fee"); and
  - f. The tons of blended Clean Materials and Commonwealth coal for which Savage provided the Blending and Loading Services during the preceding month, multiplied by One Dollar and Forty Cents (\$1.40) per ton (the "Blending and Loading Fee").

14. Each invoice prepared by Savage will be accompanied by supporting weigh tickets or printouts from either the SCT Scale or the DTE Scale, as appropriate, and will be paid by Commonwealth to Savage within fifteen (15) days of receipt (i.e. by the 25<sup>th</sup> day of such month). Any invoice not paid when due shall bear interest from due date until paid at the prime rate quoted from time to time in the Wall Street Journal plus two percent (2%) per annum.
15. The Refuse Material Fee, the Return Material Fee, the Clean Material Fee, the DTE Clean Material Fee, the Treated Clean Material Fee and the Blending and Loading Fee are collectively, the "Fees". The Fees shall be subject to the "Fee Adjustment Procedure" attached hereto and by this reference made a part hereof.
16. Savage may withhold Services at any time if Commonwealth, Covol or DTE fail to perform as set forth in this letter.
17. This understanding and agreement may be terminated at the end of any calendar month by either Savage or Commonwealth upon the giving of not less than twenty (20) days prior notice, provided that the provisions of Paragraphs 10 (b) through (d) and 11 above shall remain in full force and effect.
18. Savage makes no representation as to the quality or quantity of the Refuse Material and Commonwealth has solely determined the usefulness of the Refuse Material to Commonwealth.

If this letter correctly sets forth your understanding and agreement, please date, sign and return a copy of this letter to me. Savage will be ready to commence providing the Services within ten (10) days following Savage's receipt of such returned copy.

Sincerely,



Jeff Chesler

Received and agreed to this 9<sup>th</sup> day of JANUARY 2006.

Commonwealth Coal Sales <sup>Services, Inc.</sup> ~~LLC~~

By: Wallace Taylor

Title: Vice President

Jeff Chester  
Vice President  
Operations

**SAVAGE**

Savage Services Corporation  
Refinery & Energy Services  
6340 South 3000 East #600  
Salt Lake City, UT 84121

(801) 944-6600  
Fax (801) 944-6520

March 15, 2006

T. Wallace Taylor  
**Commonwealth Coal Services Inc.**  
5413 Patterson Avenue, Suite 200  
Richmond, Virginia 23226

**RE: Savage Coal Terminal Refuse Screen Plant Proposal**

Dear Wallace:

Savage Services Corporation ("Savage") is pleased to provide Commonwealth Coal Services Inc. ("Commonwealth") with a proposal for leasing and operating a screen plant for the refuse material stored at the Savage Coal Terminal ("SCT") located near Price, Utah.

Savage Proposes to provide the following services:

Screen Plant Lease and Operation

- Identify and secure a portable screening plant capable of screening the refuse to 1/4" minus.
- Provide mobilization, fuel, parts, service, maintenance and operation of the screen plant while in operation at SCT.
- Feed the refuse into the screen plant and return 1/4" minus refuse material back to the refuse area at SCT.
- Stockpile +1/4" screened refuse material for loading onto trucks to be transported to Headwaters.
- Weights for billing will be determined using the platform scales located at SCT as the +1/4" screened refuse material is transported to Headwaters.
- The per ton billing amount is based upon a minimum 25% yield of +1/4" screened refuse material. If the yield is less than 25% the parties shall mutually agree upon a revised rate per ton. The parties will mutually agree to a method of determining the yield.

- An estimated monthly feed throughput of 8,000 tons per day with a yield of approximately 2,400 tons per day.

Savage's Screen Plant Lease and Operation Fee for the above services are as followed:

Monthly Fixed Fee	\$17,000.00 (2 month minimum)
Per Ton Fee	\$2.02

We appreciate the opportunity to work with you this manner, and if you any questions or concerns give me a call.

Regards,

  
Jeff Chesler



Jeff Chesler

**From:** Wallace Taylor [wallacetaylor@commonwealthcoal.com]  
**Sent:** Thursday, March 16, 2006 7:27 AM  
**To:** Jeff Chesler  
**Cc:** Bob Scott; Boyd Rhodes  
**Subject:** Re: Commonwealthrefusescreeproposal3-05

Jeff, Thanks for your letter outlining the screening proposal. After talking with Bob, we will agree to your proposal and will commit to the two month minimum with the understanding that we can continue after the two months if the project warrants. Thanks for your help. We are ready to start whenever you are ready.

Wallace

----- Original Message -----

**From:** Jeff Chesler  
**To:** wallacetaylor@commonwealthcoal.com  
**Sent:** Wednesday, March 15, 2006 4:02 PM  
**Subject:** Commonwealthrefusescreeproposal3-05

Wallace,

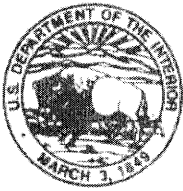
Attached is the proposal to lease and operate the screen plant at the Savage Coal Terminal. I will send one in the mail also.

Thanks,

Jeff Chesler



3/17/2006



## United States Department of the Interior

### OFFICE OF SURFACE MINING

Reclamation and Enforcement  
Division of Compliance Management  
P.O. Box 1048  
London, Kentucky 40743-1048

January 2, 2008

Wallace Taylor  
Commonwealth Coal Services, Ltd.  
5413 Patterson Ave., Suite 200  
Richmond, VA 23226

Mr. Taylor,

I am currently doing a reclamation fee audit of Savage Services Corporation. Commonwealth Coal Services, Ltd. received refuse coal from Savage Services from April 2006 through March 2007. I need to know if Commonwealth Coal Services, Ltd. combined this refuse with coal from other sources and sold it. If this is the case, I need to know if any of the coal was sold for \$3.85 per ton or less. If Commonwealth Coal Services, Ltd. did not combine and sell this refuse coal, I need to know what happened with this refuse coal.

You can respond to me via mail, email or fax. My mail address is:

Jennifer Smith, Auditor  
Division of Compliance Management  
Office of Surface Mining and Reclamation  
PO Box 1048  
London, KY 40743

My email address is: [jjsmith@osmre.gov](mailto:jjsmith@osmre.gov) and my fax number is 606 878-6249. If you have any questions, please call me at 606 864-4735 or 859 321-0742.

Jennifer Smith, Auditor  
Division of Compliance Management  
Office of Surface Mining and Reclamation  
PO Box 1048  
London, KY 40743

January 28, 2008 (finalized February 8, 2008)

COVOL Engineered Fuels, LC (COVOL-permit applicant)  
10653 South River Front Parkway, Suite 300  
South Jordan, Utah 84095  
(801) 984-3777

COVOL Engineered Fuels, LC (Dry-Coal Cleaning Facility location)  
1865 West Ridge Road  
Wellington, Utah 84654  
(435)613-1631

EY 2008 OSM Evaluation: Permitting Status of Coal - Waste Processing Operations  
January 17, 2008

Participants:

Mike Gipson, Plant Manager  
Pete Hess, Utah Division of Oil, Gas, and Mining (DOGM)  
Christine Belka & Henry Austin, Office of Surface Mining (OSM)

We conducted an oversight evaluation of the COVOL dry-coal cleaning facility south of Price, UT. This evaluation is included under the "Permitting Status of Coal – Coal Waste Processing Operations" evaluation topic selected for OSM Oversight Evaluation Year (EY) 2008 in Utah.

The primary purpose of this evaluation is to document any offsite impacts, and the potential for offsite impacts from this facility. No offsite impacts were identified during the evaluation. This evaluation also documents the DOGM permitting process for this coal processing plant.

A potential for offsite impacts (uncontrolled surface water runoff from the disturbed area) was discussed briefly with Mr. Gipson during our field evaluation regarding the disturbed area perimeter diversion ditch on the south east perimeter of the facility. The diversion at this location intercepts a small depression, and the small depression is almost contiguous to an irrigation ditch. The diversion is almost inundated at this location, it was difficult to determine with frozen ground, snow, and water in the depression at this location. (This perimeter diversion diverts all the disturbed area, surface water runoff at the facility into 2 sediment ponds.) There does not appear to be a great deal of surface water runoff from the actual coal preparation, coal stockpiles, truck loading facilities, and roads draining toward this area of the diversion at this time.

We identified ourselves to Mr. Gipson and described the purpose of our oversight evaluation. I telephoned Mr. Mike Edwards and Ms. Gina Rau representing HEADWATERS, Inc. and provided notice of our oversight evaluation schedule. The officers and directors of HEADWATERS, Inc. (FEIN 87-0547337) are listed as the Board of Directors in the COVAL Engineered Fuels, LC dry-coal cleaning facility permit application submitted to DOGM on or about January 15, 2008.

This 2008 OSM Evaluation finds that this facility was constructed (beginning 2005) and has been operated since as a "Coal Processing Plant" identified under the State of Utah R645 Coal Mining Rules at R645-100-200 Definitions.

During my January 10 telephone notification to Ms. Rau, we briefly discussed the DOGM permit application logistics, and the purpose of the oversight evaluation. Ms. Rau intended to participate in the evaluation, but was unavailable due to weather related travel difficulty. Ms. Rau was very informative and helpful to me describing the dry-coal cleaning facility start-up, and briefed me on the DOGM permit application. Ms. Rau is the Environmental Manager and designated agent for this facility.

Ms. Belka and I administratively reviewed the COVOL permit application at the DOGM Price Field Office on January 15, and Mr. Hess led the inspection participants in an administrative review of the permit application during the on-site evaluation. Mr. Gipson provided a thorough operations history of the facility to date, and was very helpful with our questions and comments. The facility has been in construction and / or operating for approximately 2 years. This site has processed coal refuse from the Savage Coal Terminal, and is currently processing run of mine coal from the West Ridge Mine.

Coal processing operation permits already issued and in force to COVAL for this facility include UPDES Permit No. UT000685, Utah DEQ-Division of Air Quality Approval Order DAQE # AN2952001-03, and a Utah Industrial Development Commission, Certificate of Insurance and Business Authorization. The Price, UT, Mine Safety and Health Administration (MSHA) staff inspects this facility as a coal processing operation (telephone conversation with Mr. Ted Farmer, MSHA, on January 10, 2008).

Mr. Hess and Mr. Gipson led us on a field inspection of the fenced disturbed areas and plant facilities that include the entrance haul road, office trailer, coal and/or coal refuse stockpiles, coal handling and processing conveyors, primary crusher, sizing screens, pneumatic coal – rock processing cyclones, truck loadout facility and road loop, topsoil stockpiles (most or all of the fenced in area is on Mancos shale derived soils, with saline playas common adjacent to the fenced in disturbed areas), a surface water runoff diversion ditch that diverts surface water from the entire fenced in disturbance into two incised sedimentation ponds, equipment storage, portable and self-contained fuel storage units, and a bone yard-scrap storage area.

The site does not have any on-site coal refuse disposal pile, and a coal refuse facility is not planned for the site. We discussed coal refuse disposal options.

Coal refuse from the processing operation here is currently being hauled to the Sunnyside CoGen Power plant; and presumably either used for fuel or disposed at the Sunnyside Refuse / Slurry Operation. It appears the long term operations and profitability of this coal processing facility will depend in large part on handling and disposal of the coal refuse being generated here.

Generally, the site is well organized and maintained. All roads are functional and water runoff is not a problem on the roads at this time. Most areas were frozen and snow covered so it was impossible to judge durable surfacing of the roads.

Fugitive dust from the disturbed areas and coal stockpiles-handling facilities was not a problem during the evaluation. We discussed fugitive dust issues on other coal mining operations in the area with Mr. Gipson. Mr. Gipson discussed dust suppression practices here.

See discussion above for surface water runoff control and the diversion maintenance necessary. We discussed soil stockpile protection, and the required signs and markers throughout the proposed permit area and entrance road with Mr. Gipson. We also discussed the potable water line, and water wells. This concluded our evaluation of the disturbed areas.

No offsite impacts were identified during our evaluation. See above for discussion of the potential offsite impact from the surface water runoff diversion.

The DOGM permitting process for this coal processing plant will be discussed with DOGM, and documented in the OSM EY 2008 Annual Evaluation Summary Report.

Please address any questions concerning this evaluation report to Henry Austin, Senior Reclamation Specialist, at [haustin@osmre.gov](mailto:haustin@osmre.gov) or to (303) 844-1400 x1466.